

# Summary of Audit Documentation Requirements

Existing Sec. 68.3 – Retention Period for Audit Documentation	CalCPA's Proposal	AICPA Statement on Auditing Standards No. 103	PCAOB Auditing Standard No. 3
<p>(a) The retention period mandated by Business and Professions Code section 5097 [seven years] shall be measured from the report date.<sup>1</sup></p> <p>(b) If audit documentation is required to be kept for longer than seven years because of a pending Board investigation or disciplinary action, audit documentation shall not be destroyed until the licensee has been notified in writing by the Board of closure of a Board investigation or disciplinary proceeding.</p> <p>(c) Any documents required to be maintained by Business and Professions Code Section 5097 or these regulations shall be maintained in accessible form.</p> <p>(d) Audit documentation shall be retained whether or not the documentation supports the auditor's final conclusions. All</p>	<p>(a) The retention period mandated by Business and Professions Code section 5097 shall be measured from the <u>report date of issuance of the report</u>.</p> <p>(b) If audit documentation is required to be kept for longer than seven years because of a pending Board investigation or disciplinary action, audit documentation shall not be destroyed until the licensee has been notified in writing by the Board of closure of a Board investigation or disciplinary proceeding.</p> <p>(c) Any documents required to be maintained by Business and Professions Code Section 5097 or these regulations shall be maintained in accessible form.</p> <p>Audit documentation shall be retained whether or not the documentation supports the auditor's final conclusions. All audit documentation regarding</p>	<p>The auditor should adopt reasonable procedures to retain and access audit documentation for a period of time sufficient to meet the needs of his or her practice to satisfy any legal or regulatory requirements for records retention. Such period, however, should not be shorter than five years from the report release date<sup>2</sup>.</p>	<p>The auditor must retain audit documentation for seven years from the date the auditor grants permission to use the auditor's report in connection with issuance of the company's financial statements (report release date), unless a longer period is required by law. If a report is not issued in connection with an engagement, then the audit documentation must be retained for seven years from the date that fieldwork was substantially completed. If the auditor was unable to complete the engagement, then the audit documentation must be retained for seven years from the date the engagement ceased.</p>

<sup>1</sup> The auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion. (In majority of audits, the report date is the date of completion of the audit fieldwork.)

<sup>2</sup> Date of issuance (report release date) will be the date the auditor delivers the audit report to the audit client.

# Summary of Audit Documentation Requirements

Existing Sec. 68.3 – Retention Period for Audit Documentation	CalCPA's Proposal	AICPA Statement on Auditing Standards No. 103	PCAOB Auditing Standard No. 3
audit documentation regarding any significant matter related to the audit shall be retained whether or not the documentation contains information or data inconsistent with the auditor's final conclusions. Significance of a matter shall be determined based on an objective analysis of the facts and circumstances. Audit documentation to be retained shall also include all documentation of consultation on, or resolutions of, any differences of opinion regarding the exercise of professional judgment.	any significant matter related to the audit shall be retained whether or not the documentation contains information or data inconsistent with the auditor's final conclusions. Significance of a matter shall be determined based on an objective analysis of the facts and circumstances. Audit documentation to be retained shall also include all documentation of consultation on, or resolutions of, any differences of opinion regarding the exercise of professional judgment.		

Note: Retention period is different for all three standards.

- Sec. 68.3 requires seven years measured from report date.
- A.S. No. 103 requires five years measured from report release date.
- PCAOB A.S. No. 3 requires seven years measured from report release date.

Sec. 68.3 has added requirement that data inconsistent with auditor's final conclusions be retained.



## CALIFORNIA BOARD OF ACCOUNTANCY

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Attachment 4

Board Agenda Item II.A

July 21, 2006

DEPARTMENT OF CONSUMER AFFAIRS  
CALIFORNIA BOARD OF ACCOUNTANCY

**DRAFT**

**MINUTES OF THE  
May 19, 2006  
BOARD MEETING**

Hilton San Jose  
300 Almaden Blvd.  
San Jose, CA 95110  
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**I. Call to Order.**

President Ronald Blanc called the meeting to order at 9:02 a.m. on Friday, May 19, 2006, at the Hilton San Jose and the Board and ALJ M. Amanda Behe heard Agenda Items XII.A-B. The Board then convened into closed session at 9:40 a.m. to deliberate and also to consider Agenda Items XII.C-G. The meeting adjourned at 2:43 p.m.

Board MembersMay 19, 2006

Ronald Blanc, President	9:02 a.m. to 2:43 p.m.
David Swartz, Vice President	9:02 a.m. to 2:43 p.m.
Ruben Davila, Secretary-Treasurer	9:02 a.m. to 2:43 p.m.
Richard Charney	9:02 a.m. to 2:43 p.m.
Angela Chi	9:02 a.m. to 2:43 p.m.
Donald Driftmier	9:02 a.m. to 2:40 p.m.
Sally Flowers	Absent
Sara Heintz	Absent
Thomas Iino	9:02 a.m. to 2:30 p.m.
Clifton Johnson	9:02 a.m. to 2:43 p.m.
Bill MacAloney	9:02 a.m. to 10:30 a.m.
Marcus McDaniel	9:02 a.m. to 2:43 p.m.
Robert Petersen	9:02 a.m. to 2:43 p.m.
Renata M. Sos	9:02 a.m. to 2:43 p.m.
Stuart Waldman	9:02 a.m. to 2:43 p.m.

B. CPA Qualifications Committee (QC).

1. Minutes of the January 11, 2006, QC Meeting.

The minutes of the January 11, 2006, QC meeting were adopted on the Consent Agenda. (See Agenda Item XIII.B.)

2. Report on the April 26, 2006, QC Meeting.

Mr. Bulosan reported that the QC met on April 26, 2006, in Los Angeles and he thanked Mr. Driftmier for attending and participating in the meeting. He noted that Mr. Hurley, who had recently joined the committee in January 2006, had resigned due to work conflicts. Mr. Bulosan noted that Ms. Corrigan and Mr. Riley were working on a subcommittee to study the certificate of attest experience with the goal of producing a report to the Board at the end of 2006. The report will be related to the issues that the QC is seeing regarding qualifying experience. Mr. Bulosan indicated that the QC's next meeting would be July 12, 2006 in northern California. He stated that he echoed the comments that Ms. Sigmund had made regarding Ms. Franz. He indicated that she does a fantastic job and he wanted to acknowledge and thank her on behalf of the QC.

Mr. Driftmier noted that the members of the QC spend many hours reviewing and determining the experience of candidates and they deserve the Board's support and recognition.

C. Committee on Professional Conduct (CPC).

1. Report on the May 18, 2006, CPC Meeting.

Mr. Swartz reported that the CPC discussed the agenda items listed below. The CPC also placed on its agenda for discussion at the next meeting, consideration of proposed amendments to IRS Circular 230 related to transparency. Staff will be providing a summary of the proposal and background information.

2. Consideration of CalCPA's Request for Amendments to the Board's Regulations Related to Audit Documentation.

Mr. Swartz reported that in November 2005, the CPC discussed CalCPA's proposed revisions to the Board's regulations on audit documentation. The discussion was continued at yesterday's CPC meeting. He noted that the CPC approved three motions.

Mr. Swartz reported that the first motion was to recommend to the Board the following three changes: 1) Change the start date for the retention of audit documentation to the "date of issuance of the report" which is also called the "report release date," 2) Change the regulations so that no deletions of audit documentation are permitted after the close of the 60-day document assembly period, and 3) Change the regulations to indicate documentation requirements do not require the retention of deleted documents.

**It was moved by Mr. Petersen, seconded by Mr. Driftmier, and carried to change the start date for the retention of audit documentation to the date of issuance of the report. Mr. MacAloney was temporarily absent.**

**It was moved by Dr. Charney, seconded by Mr. Petersen, and carried to change the regulations so that no deletions of audit documentation are permitted after the close of the 60-day document assembly period. Mr. MacAloney was temporarily absent.**

Ms. D'Angelo Fellmeth requested to comment for the record and to educate new Board members about the genesis of the regulations being discussed. She indicated that the regulations were developed from a statute enacted in 2002 in AB 2873. Ms. D'Angelo Fellmeth reported that the statute was drafted by a task force of this Board consisting of Board members and external stakeholders, including her. She noted that the Task Force focused solely on audit documentation and strengthened the standards in unique ways, including the rebuttable presumption. This presumption shifts the requirement of proof to the auditor when adequate documentation is missing in the case of an audit failure and investigation. After the passage of that bill, this Board spent significant time drafting regulations to implement the law. Ms. D'Angelo Fellmeth indicated that CPIL does not have any opposition to the motions just passed but is very concerned that the proposed deletion of Section 68.4(a) which currently defines in great detail the term "changes" in audit documentation that occur after the date of issuance of the report. It governs how any changes must be recorded. She added that CPIL believes that release of the report is a significant event. The report is then in the hands of the audit client and investors, and it is being relied upon by them. She noted that CalCPA's proposal would eliminate that definition such that the term "change" used thereafter no longer would have the same meaning.

Ms. D'Angelo Fellmeth reported that the definition in Section 68.4(a) was painstakingly drafted by this Board to try to anticipate, prevent,

and prohibit the undocumented alteration of audit documentation following the release of the report. She indicated that she believed that CalCPA's proposal would create a loophole in the regulations that would allow deletions, removals, substitutions, and editing to audit documents after the release of the report date without any documentation as to who did it or why. She noted that this was inconsistent with this Board's intent just three years ago, and she believed that it was inconsistent with the rebuttable presumption. She urged the Board to reconsider this revision.

**It was then moved by Mr. Petersen, seconded by Dr. Charney, and carried to change the regulations to indicate documentation requirements do not require the retention of deleted documents. Mr. MacAloney was temporarily absent.**

Mr. Swartz reported that the second motion reconsidered the issue of deleted documents. The CPC decided, by a 4-2 vote, to recommend that the regulations be revised to not require the documentation of documents that are deleted during the 60-day document assembly period.

Ms. Sos indicated that, as one of the two committee members voting against this proposal, the Board's charge under Section 5097 was to develop regulations that fulfilled the statutory mandate which included ensuring that the audit documentation permitted a person who was not privy to the audit to determine the identity of the persons who performed the work. She noted that in developing the implementing regulations, the Board believed from the perspective of consumer protection that the report release date was a significant event. That date released the report to the public and invoked a greater consumer protection responsibility. Ms. Sos indicated that the requirement for the documentation of deletions made during the 60-day assembly period was intended to fulfill the statutory mandate that there be sufficient documentation to determine who did what when.

Mr. Blanc added that from the Board's point of view, he believed that it was important to know what took place in the audit file, after the report release date. If there were changes, there should be sufficient documentation so that in the event of an audit failure, regulators would be able to ask the right people what took place. Mr. Blanc added that he believed the regulations were well thought through and addressed real issues. It was an important feature that he had not been convinced needed changing.

Mr. Davila indicated that he believed that the regulation raised the level of bureaucracy and the cost of the audit with very little benefit. Mr. Duffey respectfully requested that the Board support the recommendation.

**It was moved by Mr. Swartz, seconded by Mr. Driftmier, and carried to revise the regulations to not require documentation of documents deleted within the 60-day completion period. This motion superceded the previous motion to change the regulations to indicate documentation requirements do not require the retention of deleted documents. Ms. Sos, Mr. Blanc, and Mr. Waldman were opposed.**

Mr. Swartz reported that the final CPC action on audit documentation was to recommend that the Board adopt CalCPA's proposal which specifies a date for completing audit documentation in those instances in which a report is not issued, but substitute 60 days in place of the 45 days in CalCPA's proposal.

**It was moved by Mr. Petersen, seconded by Mr. Iino, and carried to revise the regulations to incorporate a provision for the completion of audit documentation within 60 days in those instances in which a report is not issued. Mr. MacAloney was temporarily absent.**

Mr. Swartz noted that at the next meeting, staff will be providing draft regulatory language to implement the changes to the audit documentation regulations.

### 3. Discussion of Tax Services.

Mr. Blanc reported that the CPC deferred an in-depth discussion of tax services until a future meeting when more complete information becomes available from stakeholders.

## D. Legislative Committee.

### 1. Minutes of the March 16, 2006, Legislative Committee Meeting.

The minutes of the March 16, 2006, Legislative Committee meeting were pulled from the Consent Agenda to remove Mr. Driftmier's name from the list of Legislative Committee members attending and add his name to the list of Board members observing the meeting.

**It was moved by Mr. Waldman, seconded by Mr. Johnson, and carried to approve the March 16, 2006, Legislative Committee**

## Memorandum

CPC Agenda Item III  
July 20, 2006

Board Agenda Item IX.C.4  
July 21, 2006

To : CPC Members  
Board Members

Date: July 13, 2006  
Telephone : (916) 561-1788  
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From : Aronna Wong   
Legislation/Regulations Coordinator

Subject: Proposed Regulatory Language Related to the Board's Audit Documentation Requirements – Alternative Language for Section 68.4(a).

In a July 10, 2006, memo for this agenda item, the CPC and the Board were provided with proposed amendments to the Board's audit documentation regulations – Sections 68.3 and 68.4. Proposed Section 68.4(a) referred to audits of publicly-traded companies. This reference was intended to indicate that these are audits under Public Company Accounting Oversight Board (PCAOB) oversight. Hal Schultz, on behalf of CalCPA, pointed out some technical weaknesses in this approach. For one thing, it would fail to include audits of companies that have filed a registration with the Securities and Exchange Commission (SEC) but have not yet begun to trade publicly. It would also include small companies that trade publicly, but are not required to register with the SEC.

Following a discussion with Mr. Schultz of ways to address this concern, the most workable option is provided below. One benefit of this option is that the Board would not need to revise its regulations should the PCAOB rule be modified.

### **68.4. The Document Assembly Period and Subsequent Changes in Audit Documentation After Issuance of the Report.**

(a) Audit documentation that is not completed prior to the date of issuance of the report shall be completed during the document assembly period specified in this subsection.

(1) For audits of publicly traded companies, the document assembly period is the 45-day period following the date of issuance of the report. If the report is not issued in connection with such an engagement, the document assembly period ends 45 days after the date that the fieldwork was completed. If the auditor was unable to complete such an engagement, then the document assembly period ends 45 days from the date the engagement ceased.

(2) (1) For audits of an entity other than publicly traded companies, the The document assembly period is the 60-day period following the date of issuance of the report. If the report is not issued in connection with such an engagement, the document assembly period ends 60 days after the date that the fieldwork was completed. If the auditor was unable to complete such an engagement, then the document assembly period ends 60 days from the date the engagement ceased.

(2) Notwithstanding the document assembly period specified in paragraph (1) of this subsection, licensees shall comply with applicable professional standards specifying a shorter document assembly period.



## Memorandum

CPC Agenda Item III  
July 20, 2006

Board Agenda Item IX.C.4  
July 21, 2006

To : CPC Members  
Board Members

Date: July 13, 2006  
Telephone : (916) 561-1788  
Facsimile : (916) 263-3674  
E-mail: awong@cba.ca.gov

From : Aronna Wong   
Legislation/Regulations Coordinator

Subject : Proposed Regulatory Language Related to the Board's Audit Documentation Requirements – Alternative Language for Section 68.4(c).

In a July 10, 2006, memo for this agenda item, the CPC and the Board were provided with proposed amendments to the Board's audit documentation regulations – Sections 68.3 and 68.4.

Deputy Attorney General Michael Granen has proposed alternative language to improve the readability of proposed subsection (c) of Section 68.4. This language is provided below for your consideration.

(b) ~~Except as provided in subsection (c), in~~ **(c) In** addition to any other documentation required by professional standards, any ~~changes in~~ **addition to** audit documentation **after the end of the document assembly period shall include the following: 1) the reason for the addition, 2) the identity of the persons preparing and approving the addition, and 3) the date of the addition.** ~~shall provide the identity of the person(s) making the change, and identity of any person(s) approving the change, the date of the change, and the reason for the change if the reason is other than the assembling of pre-existing documents. The documentation which is changed~~ **added** shall contain sufficient detail to enable a reviewer with relevant knowledge and experience, having no previous connection with the audit engagement, to understand the nature, timing, reason for, and extent of the ~~change~~ **addition**.